

Classified 3



CENTRAL INTELLIGENCE AGENCY

WASHINGTON 25, D. C.

OFFICE OF DEPUTY DIRECTOR OF CENTRAL INTELLIGENCE

OGC REVIEW COMPLETED

The Honorable Herbert Brownell, Jr.
The Attorney General
Department of Justice
Washington 25, D. C.

Dear Mr. Attorney General:

Early in January 1954 attorneys for Socony-Vacuum Oil Company, Standard Oil Company of California, and The Texas Company addressed the Agency in a joint letter, urging that certain witnesses be heard by the Agency, with the hope that we would evaluate their testimony and advise the Department of Justice of our reactions. An identical letter was sent to the Secretary of State and both letters stemmed from a suggestion to the oil companies' attorneys by the Assistant Attorney General, Judge Stanley Barnes. Since then the oil companies have presented, at three meetings at which State, Defense, and CIA representatives were present, witnesses who testified as to their own opinions, and those of others whom they had interviewed in the Middle East.

Testimony of the witnesses indicated that

as the result of the publication of the FTC report in August 1952, there had been a deterioration of the relationship between the oil companies and the concessioning countries of the Middle East wherein they operate;

the propaganda use of this material by the Soviets had not been great;

the filing of the first anti-trust suit during the same month was likewise used by the local press and by the local governments in negotiations between the concessioning Middle East countries and the U.S. oil companies, as a means of brow-beating the latter;

in general, it lowered the prestige of these companies in their areas of operation;

since the quashing of the criminal case against the oil companies, there has been a general subsidence of press comment and at the present time it is not generally known in the Middle East that a civil suit impends.

The witnesses all agreed that if a civil suit were prosecuted and gained headlines in American papers, any new material adduced would again become the subject of discussion in the Middle East, both in the press and by government negotiators who are constantly dealing with oil concessionary matters.

The witnesses testified further that

an anti-cartel or anti-trust suit is not understood in countries where the government itself deals with oil companies and where concessions have now merged into partnerships by which the concessioning governments share the profits of the oil company;

these countries, and particularly Saudi Arabia, have assumed heretofore that the oil companies were free agents;

they will consider a U.S. anti-trust suit against oil companies, with which they are in contractual relationship, as attacks on these contracts and hence, a threat to their share of the profits.

The witnesses stated that it was their firm judgment that the future policy of the U.S. in the Middle East is inextricably interwoven with the inter-relationship of the U.S. oil companies, the actual economy of the oil countries, and the attitudes of the local governments; that any action by the Government of the United States that limits the right of these companies to contract freely with the governments of the Middle East will be regarded as an attack on the sovereignty of the governments, and on their own capacity to enter into contracts.

Since the witnesses of the oil companies were heard, comments requested by the Department of State have been received from several of our foreign missions. The reports of the Ambassadors to Saudi Arabia and Lebanon (the latter having previously been assigned to Saudi Arabia) are most pertinent. The Ambassadors state that in their opinions, the following results may be expected in the Middle East from a prosecution of the suit:

further reduction of Arabian American Oil Company's standing;

notice to the governments of the Middle East that if they apply pressure to the oil companies, the latter will not be supported by the Government of the United States;

reduction of standing of the United States in the eyes of the Arabs which in turn would jeopardize prime objectives of the U.S. such as maintenance of internal stability, the strengthening of Saudi Arabian defenses and security forces, and especially the U.S. interest in the Dhahran Air Field.

This Agency has evaluated the testimony of the oil company witnesses and the intelligence views expressed by the Ambassadors in the area, and concurs in the abstracts stated above from an intelligence standpoint. In the judgment of this Agency, there is in each of these Middle East countries a strong nationalist element and in general, a jealousy of the profits taken by "foreigners" from the exploitation of their oil resources. This has been met in part by a revision of all of the concessions from their previous bases to the current 50-50 profit sharing status. It is not inconceivable that the next step proposed by the anti-foreign element will be complete expropriation as was the case in Iran three years ago. We believe this anti-foreign element would be encouraged, at least in some degree, by public proceedings tending to depict the American oil companies as violators of the laws of the United States or as subject to the direct control of the Government of the United States.

Sincerely yours,

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C. P. CABELL
Lieutenant General, USAF
Deputy Director

Not despatched.
See memo attached
from General Counsel.
CPC

1 July 54

DCI approves
withdrawal of
this letter.

CPC